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**ARIZONA CORPORATION COMMISSION**

April 24, 2007

Mr. Bill Post  
Chairman of the Board and CEO  
Pinnacle West Capital Corporation  
Mail Station 9080  
P.O. Box 53999  
Phoenix, Arizona 85072-3999

Mr. Jack Davis  
President and CEO  
Arizona Public Service Company  
Mail Station 9080  
P.O. Box 53999  
Phoenix, Arizona 85072-3999

**Re: Security Breach Involving Palo Verde Nuclear Generating Station (PVNGS)**

Dear Messrs. Post and Davis:

On Saturday, April 21, my office learned through an article in *The Arizona Republic* about the security breach at PVNGS involving an alleged illegal technology transfer between Mohammad Alavi, a naturalized U.S. citizen of Iranian descent and former APS employee, and Iran, a state-sponsor of terrorism.

Alavi, a software engineer who has extensive knowledge of PVNGS's simulator system and perhaps other systems, has been arrested on the charges of downloading the 3KeyMaster software program, the simulator system used to train PVNGS employees, and accessing the data while in Iran. The software system stolen by Alavi contains key proprietary information on the reactor control rooms, as well as the schematics and designs of PVNGS.

Alavi's theft of software constitutes a possible violation of two Executive Orders authorizing the current trade embargo with Iran and has no direct bearing on the Commission's regulatory role on your company. The appropriate federal authorities, including the Federal Bureau of Investigation and the Nuclear Regulatory Commission, are investigating this matter.

I believe Commissioners should not compromise or hinder ongoing federal law enforcement investigations or a potential Congressional probe by holding a formal inquiry on a national security concern on which we clearly lack jurisdiction.

However, as a state regulator of APS, I am dismayed by APS' lax safeguards regarding the screening, hiring and exiting of employees, particularly at security-sensitive PVNGS. This episode is but the latest in a series of operational and employee performance problems that have beset PVNGS over the last few years. At this point, the confidence level of your customers regarding APS' ability to operate PVNGS successfully is quickly eroding.

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Your swift and sure responses to these national security threats are essential. Please advise me as soon as possible of the changes, if any, APS has implemented to its data security and employment security procedures to prevent the unauthorized taking or accessing of such information in the future.

Sincerely,

A handwritten signature in black ink, appearing to read "JH Miller", written in a cursive style.

Jeff Hatch-Miller  
Commissioner

CC: Chairman Mike Gleason  
Commissioner William A. Mundell  
Commissioner Kristin Mayes  
Commissioner Gary Pierce